

CRUDE OIL MONTHLY REPORT

JUNE 2011



Recommendation:

MCX Crude : Sell at Rs.4500-4550 target: 4280-4240 SL above 4640

NYMEX Crude : Sell at \$101-103 levels targeting \$94.50 then \$88 SL above \$109

CRUDE OIL

Price Performance:

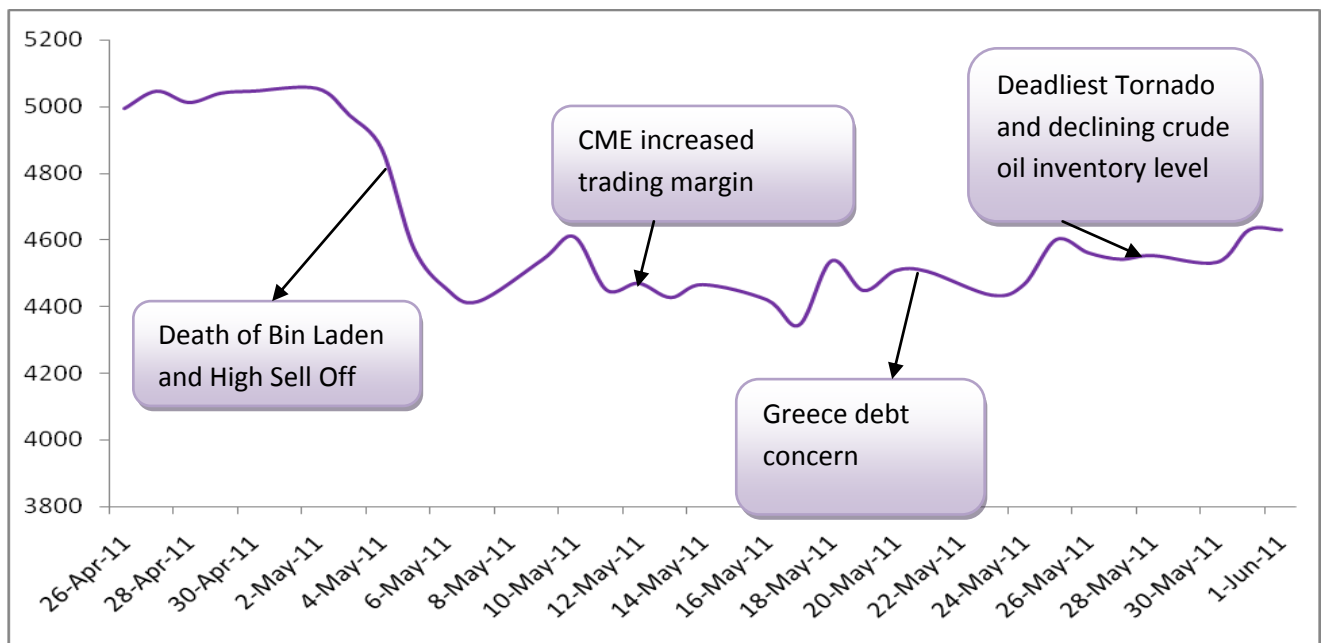
Oil futures prices traded on a consolidated manner in the last month after falling the most in the first week of the month. Oil prices slipped below \$94.70/ bbl and Rs.4219 in NYMEX and MCX platform respectively in first week of the month. However, prices recovered thereafter and closed at \$ 102.7/bbl in NYMEX platform.

Table 1: Crude oil price change (*Data collected till May 31, 2011)

Commodity	Feb11	Mar11	Apr11	May
NYMEX Crude Oil	5%	10%	7%	-10%
MCX Crude Oil	5%	7%	6%	-8%

Source: Bloomberg & KCTL Research

MAJOR EVENTS IN THE LAST MONTH:

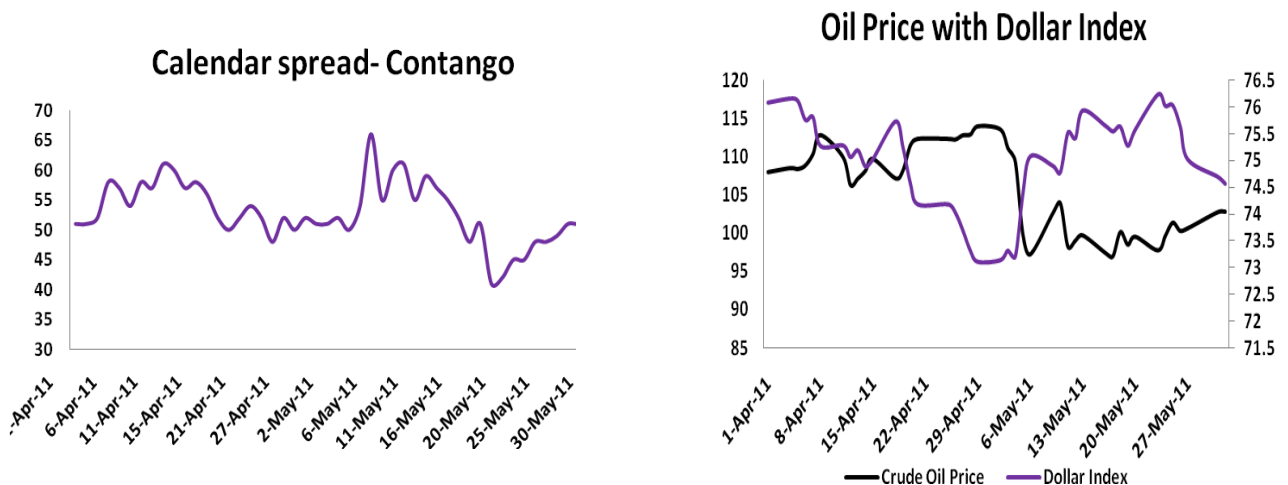


Oil futures price plunged near sixteen percent in beginning of the last month as higher sell off happened. As per CFTC, short positions have increased by nine percent in first week of May. **Death news of Al-Qaeda leader Osama Bin Laden** created the bubble in commodity market. Dollar index spiked up near three percent and closed at 74.91 levels. In addition to this, interest rate remains unchanged at 1.25% by European Central Bank and said any rate hike is not expected in recent time, which also made Euro to appreciate by 3.2 percent against dollar. Thus, **strengthening dollar index** pressurized on commodity market and oil prices continued the bearish trend throughout the first week of the month. Flood warning in Mississippi river boosted oil prices to recover from earlier fall. However the trend could not continue, as square off of long positions was witnessed because **CME Group, the Nymex owner, increased margins** for crude trading to \$8,438 per contract from \$6,750(25 percent), effective from 11th May. Inflation in China increased as Consumer price index climbed up by 5.3 percent and trade balance increased to \$11.42 B in April. Thus, Central Bank of **China increased the reserve ratio 50 Bps to 21%**. The deadliest tornado in Missouri city, US killed more than 200 people in the last month and created the concern for crude oil supply and disruptions. Thus, a little gain in oil prices was

seen on account of falling inventory and concern of supply and distribution. **Greece debt concern** prevailed throughout end of the month which made Euro to weaken against green back.

Calendar Spread

The average difference of two consecutive contracts declined to Rs.51 in May from Rs.54 in April. The calendar spread made a high of Rs.61 and closed at Rs.51 in last month. Sluggish growth in US economy have created concern of faltering oil demand, so demand for far month contract also fell. Thus spread between consecutive contracts declined in the last month trade. However, we may expect spread to increase more in the coming month as demand may increase more for the far month contract during peak hurricane season



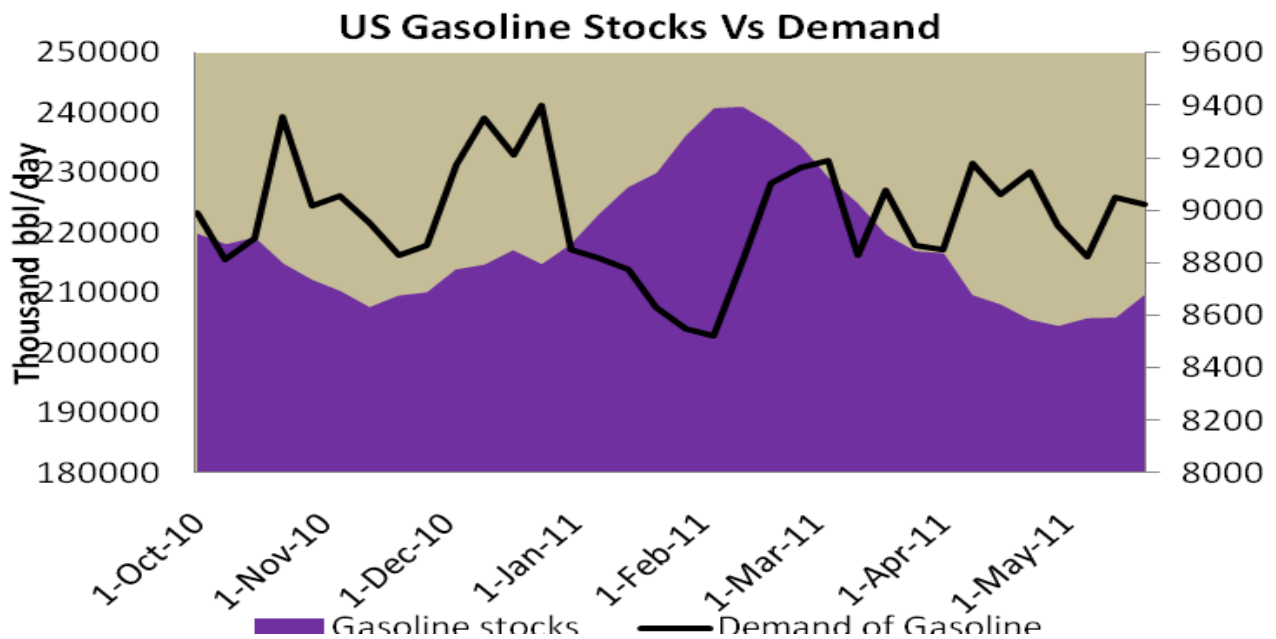
Economic Overview

Tragic event in Japan is having a negative impact on world economy. The world economy growth has been revised downward to 3.9 percent in 2011. Additional challenges are coming from continued sovereign debt crisis in Euro-zone, increasing inflation across the globe and a potential overheating in developing Asia. US GDP growth slows to 1.8 percent in the first quarter, due to higher food and petroleum prices dampened consumer spending and sent inflation to near 2.7 percent, highest in last two years. In the month of April, unemployment rate increased from 8.8 to 9 percent, due to lesser number of job additions by different payrolls firms. Slow growth in US manufacturing sector was seen in May, as it declined by 11% to 53.5 levels, lowest since 2009 September. Double disaster in Japan has weighed on country's economy. Impact of the natural disaster has been estimated at ¥10,000-25,000 bn by governmental sources, around \$120-300 bn. Consumer confidence in Japan have fallen to the lowest level of last two years. The Euro-zone economy continues its low growth momentum and sovereign debt remains a major challenge. ECB raised interest rate by 25 basis points to 1.25 percent since 2009 to curb inflation. Greece has been down graded by Moody on second June. On the other side, interest rate is likely to increase by People bank of China again to curb increasing inflation. Thus further rise in interest rate may create bubble in commodity market.

FUNDAMENTAL OUTLOOK:

Oil futures are likely to trade on lower side on concern of faltering demand due to slow economic growth of world's major oil consumers. On the other side Peak summer season and ongoing hurricane season may create some bubble in oil price movement. Hurricane season have already started from June and will continue till November, which may create the disturbances in crude oil production and supply. Thus, expectation of higher demand in lieu of summer driving season along concern of oil supply and

distribution may boost oil prices. However, from Global economic front there may be some pressure. Economy of major oil consuming countries like US, China and Japan are going through a sluggish movement.



Summer Driving Season and Gasoline inventory levels: Gasoline demand generally peaks in US summer driving season, which starts from April and ends on September. However, Peak summer season starts after Memorial Day holiday in last week of May, which increases demand for gasoline. In the last year, weekly average inventory level declined by three percent from 224 million barrels to 221 million barrels in May FY2011. Continuous fall in gasoline stocks is seen since last three months and currently gasoline stocks is at 205 million barrels which is lower since June 1996 stock levels. Simultaneously, average weekly gasoline demand in the month of May is 9.0M Barrels, less than last year which was 9.1M Barrels. However, continuous fall in Distillates stocks level is seen and currently stands at 141 million barrels, lower than last year level. Thus, falling inventory level may support oil prices in near term, however slow in economic condition of US might be creating the concern for flattering oil demand.

Hurricane Season: As per National Oceanic Atmospheric Administration, US this year is expected to see an above normal hurricane season this year in Atlantic Basin. June first is considered to be the beginning of the Hurricane season officially. NOAA is predicting 12 to 18 named storms, out of which 6 to 10 could become hurricane of 74mph and 3 to 6 can be major hurricanes. Thus, concern of supply disruption is already seen in refineries production capacity. The oil companies have already increased their utilization capacity to meet the future uncertainty.

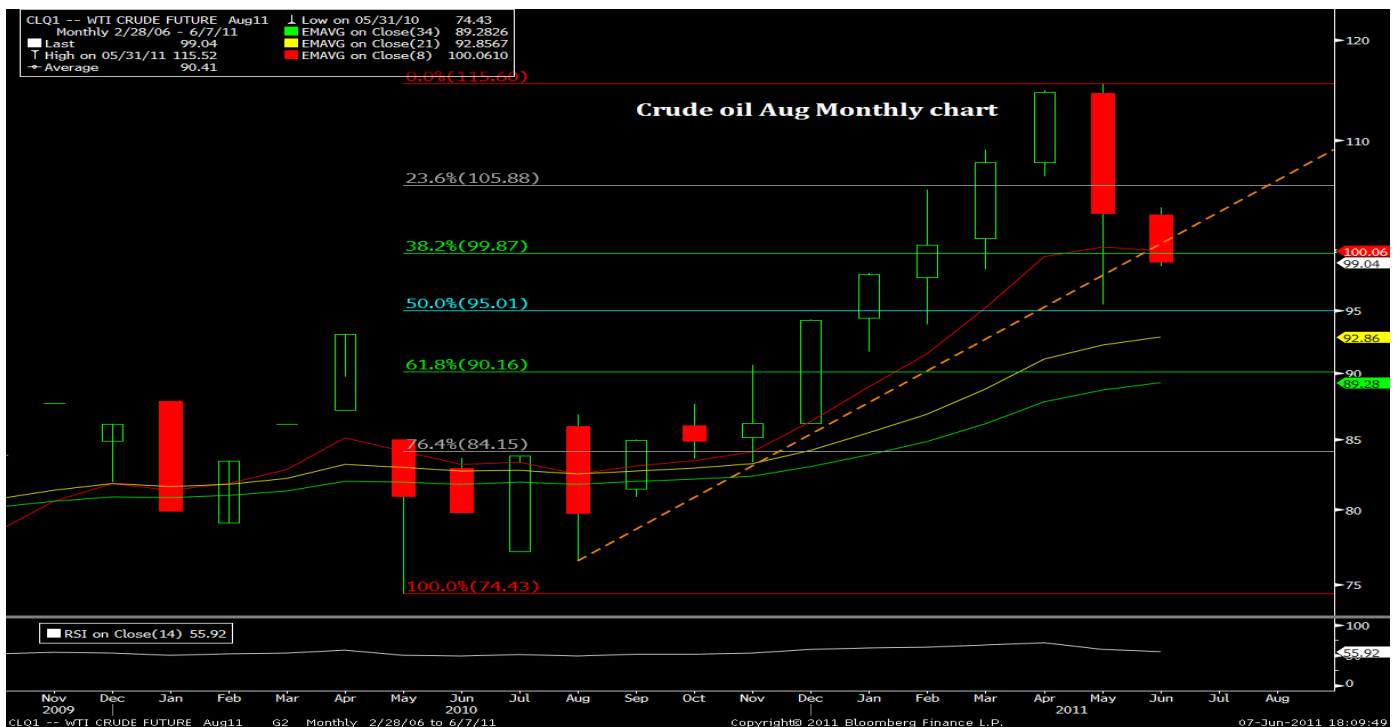
Tornado: The United States has the highest occurrence of tornadoes of any nation in the world. During an average year, over 1,000 tornadoes occur across the continental United States. Nearly a third of these tornadoes occur in the states of Texas, Oklahoma, Kansas, and Nebraska, an area known as “Tornado Alley”. This is the area where conditions combine during the springtime and early summer for the formation of super cell thunderstorms and tornadoes. Over 55% of a year’s tornadoes occur between the months of April and June, when cool dry air from Canada clashes with warm moist air from the Gulf of Mexico. So, in the month of June, warning of Tornado is still there in Tornado Alley which may boost crude oil price movement.

Technical: Crude Oil August NYMEX:

Crude Oil August NYMEX: prices are trading completely down side by reversing previous bull rally. Prices initially made a high of \$115.27 then low of \$95.18 and settled lower side at \$103.27 on last month. The long lower shadow indicates that bears controlled bull rally and it may continue for coming month. The principle of **Fibonacci retracement** states that prices are witnessing immediate support at \$99.80 level which is 38.2% of the range \$74.40-\$115.60 levels. On breach and sustain below is likely to test \$95.01 levels which is 50% of the above mention ranges. \$105.80 will act as a resistance for future prices which is 23.6% of the range 74.40-115.60 levels.

Prices are witnessing **trend line** support at \$98.40 levels. On breach and sustain below prices may test next support level of \$95.18 which is previous candle's low. The **moving average** principle also suggesting downside movements as Prices are trading far from short and long term moving averages. We may expect prices to test moving averages level. The support levels are at \$92.85 then \$89.30 levels which are (21 & 34 EMA) levels respectively. However, sustained trade below \$89 may keep oil under pressure and that could bring oil to test \$85/86 levels. The **momentum indicator** monthly RSI-14 is trading at 0.559 levels and suggesting downside movement for the coming month.

Conclusion: we expect prices will continue its bearish rally for the coming month. Recommend to sell at resistance levels.



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